

Auditors' Report

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**Deloitte
Touche
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TO THE MEMBERS OF

CREDIT CARD DNA SECURITY SYSTEM (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out below.

- (i) The Group's interest in an associate represents a 30% interest in Ming Yuen Assets Limited ("Ming Yuen") stated at a carrying value of HK\$28,500,000. However, we were unable to obtain sufficient audit evidence to assess whether any impairment loss is required to be recognised in respect of the goodwill arising on acquisition of Ming Yuen. Accordingly, we were unable to satisfy ourselves that the Group's interest in Ming Yuen was fairly stated.

Auditors' Report (continued)

BASIS OF OPINION (continued)

- (ii) In related to unlisted investments securities of HK\$3,420,000, we were unable to obtain sufficient audit evidence to assess whether any impairment is required in respect of the unlisted securities. Accordingly, we are unable to satisfy ourselves that the carrying value of the investments in securities amounting to HK\$3,420,000 was fairly stated.

Any adjustments to the figures in (i) and (ii) above would have a consequential effect as appropriate on the net liabilities of the Group and the Company as 30th June, 2003 and on the net loss of the Group for the year then ended.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the uncertainty relating to the going concern status of the Group in light of its net liabilities of approximate HK\$9,841,000 of the Group. As disclosed in note 33, after the balance sheet date, the Company issued and allotted 200,000,000 shares of HK\$0.01 to an independent third party for HK\$3,200,000 under a private share placement. 101,800,000 shares of HK\$0.01 each are issued for HK\$1,444,000 as a result of the exercise of share options. In addition, convertible notes with principal amount of HK\$11,200,000 are converted into ordinary shares after the balance sheet date. However, in the light of normal operational expenditures to be incurred by the Group in the foreseeable future, the directors are currently actively seeking equity investment from certain potential strategic investors. And the Group has recently entered into agreements with certain banks in the PRC to provide credit card security device and digital network authorisation services. Provided that the Group successfully obtain equity investment from these potential strategic investors and the credit card security device and digital network authorisation services generate budgeted cash inflow, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis. The financial statements do not include any adjustments that would result from a failure to obtain such funding. In view of the extent of the uncertainty surrounding the new equity capital injection for the Group, we disclaim our opinion in respect of the fundamental uncertainty relating to the going concern basis.

DISCLAIMER OF OPINION

Because of the significance of the possible effect of the limitations in evidence available to us referred to in the basis of opinion section of this report and the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th June, 2003 and of the loss and cash flows of the Group for the year then ended. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 28th October, 2003